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## **Turkey**

### **Retail Foods**

#### **2013 Retail Foods Report**

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**Report Highlights:**

The Turkish retail sector has grown at a remarkable rate during the past decade, and is expected complete 2013 with a 12-percent growth rate. Calendar year 2013 marked the dominance of discount chains and acquisitions in the retail sector. As profit margins diminish, players are seeking growth via mergers and acquisitions, increasing efficiency, and cutting costs instead of opening new stores.

A new retail law that has been long awaited by the sector was finally drafted and submitted for public comments. The most important changes in the law are: limiting the number of work hours, relocating a large number of supermarkets to outside city centers, and allocating rental space at shopping malls for small merchants with more favorable terms. While small retailers are strongly supporting this law, large players are lobbying against it.

**Post:**

Ankara

### **Executive Summary:**

The retail sector is one of the fastest growing sectors in the Turkish economy, which grew 72 percent between 2002 and 2012, compared to 86 percent in the retail sector. The total volume of trade in the retail sector increased from US\$76 billion in 2002 to US\$230 billion in 2012, and the target for 2023 is US\$560 billion.

The history of shopping malls dates back almost 550 years with the world famous Grand Bazaar, which is still a major shopping area today in Istanbul. The number of modern shopping malls in Turkey increased 6 times in the last decade and reached 372 in 2013, generating 60 billion Turkish Lira (TL) in revenues. These modern shopping malls currently offer 900 thousand square meters of rental area, attracting 1.6 billion visitors and US\$45 billion in investment; US\$14 billion of which is foreign investment. Based on these figures, Turkey is the 7<sup>th</sup> largest retail market in Europe (larger than Greece, Czech Republic and Portugal markets combined) and the 10<sup>th</sup> in the world.

Turkey is undergoing rapid urbanization. The population in large cities such as Istanbul, Ankara, Izmir and Bursa is increasing 10 percent on average every year. Consequently one-third of the total retail sector is located in these cities.

The Turkish economy has performed successfully in the past decade and relatively better than other countries during and after the global crisis of 2008. Following a 3.6 percent expected growth rate in 2013, Turkey expects 4 and 5 percent growth rates in years 2014 and 2015 respectively. Currently Turkey is the world's 17<sup>th</sup> largest economy and is targeting to be among the top ten by year 2023.

Turkey's inflation rate has been sustained at single digit numbers over the last decade, and has dropped from 9.3 percent in 2004 to 6.4 percent in 2010. This stability has facilitated Turkey's GDP, which has increased considerably to reach US\$788.3 billion in 2012.

The Turkish food industry is enjoying continuous growth due to a young population, high urbanization rates, and rising income levels. The highest consumed commodities are bread, pulses, sugar, dairy products, fruits and vegetables.

As per the figures of TUIK, the Turkish economy has grown 20 times between 1998 and 2012; where GDP increased from 70 billion TL to 1.417 trillion TL. During the same period, the food and beverage industry has grown 18.6 times from 15 billion TL to 279 billion TL. Subject to annual fluctuations, the ratio of the F&B industry volume to the GDP varies between 19-21 percent.

Food retail holds the largest share in the total retail sector with sales reaching US\$115 billion in 2011. The share of organized retail (supermarkets and hypermarkets) in the food retail sector is also increasing rapidly, and has reached 57 percent in 2013. The sales of large food retailers have risen and new hyper and supermarkets are continuing to be opened at an incredible rate, which reflects a rising consumer preference for branded products.

The availability of a larger range of choices at supermarkets attracts customers who demand diversity in line with their increasing income levels and changing life-styles. Moreover, member discount cards of modern retailers have become very popular since their introduction in 1998 and have improved consumer loyalty and helped boost sales.

All these factors, combined with an increase in purchasing power, have contributed to an increase in retail consumption. A study conducted by a major research company shows that the share of supermarkets in the total consumable goods market (excluding cigarettes) has increased 54 percent in the last 10 years, whereas the share of small retailers and traditional mom-and-pop stores (“*bakkal*”) has decreased to 36 percent.

**Author Defined:**

**A. MARKET SUMMARY**

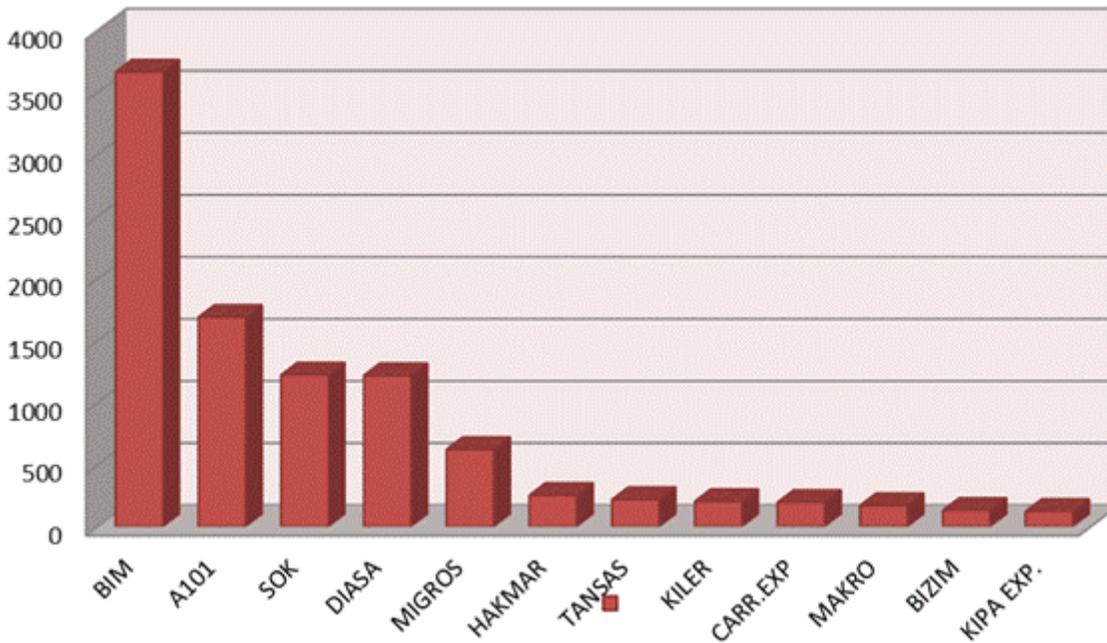
**I. The Retail Sector Profile**

The retail sector is classified into two major groups: organized and unorganized retailers. Organized retailers are mostly chain stores that have a corporate entity and are fully registered. Unorganized retailers, also called the traditional market, constitute smaller, individual stores and bazaars. The table below provides a breakdown of Turkish food retail classifications:

	<b>Sales area (m<sup>2</sup>)</b>	<b>No. of cash registers</b>	<b>Offered features</b>
<b>Hypermarkets</b>	2500 and above	8	Self service, parking, ATM
<b>Large Supermarkets</b>	1000 - 2499	4	Self service
<b>Supermarkets</b>	400-999	2	Self service
<b>Small Supermarkets</b>	100-399	2	Self service
<b>Markets</b>	51-99	1	Main street
<b><i>Bakkals</i></b>	10-50	1	Side street
<b>Convenience &amp; gas station stores</b>	10-50	1	Side street, gas station

But a more important classification that helps to explain the Turkish retail sector is local versus national & international supermarket chains. There are 139 supermarket chains with 10 or more outlets, and as of January 2013, the total number of these outlets is 13,415. Although the national chains seem to rule the market with their number of outlets, removing the top 3 national discount chains (which account for almost half of the total number) the remaining figure shows the importance of local chain stores.

The bar chart below shows the top 12 retail chains according to the number of stores. The first four classifications in the chart above are national discount stores.



Source: [www.ortakalan.com.tr](http://www.ortakalan.com.tr)

Imported food products are generally not found in local supermarket chains or discount stores, except for seasonal fruits and commodities like rice, walnuts and almonds. On the other hand, high value imported items are increasing in number and variety in national and international super and hypermarkets like Migros, Metro, and Carrefour.

Below is a SWOT analysis of the retail food sector in Turkey:

<p style="text-align: center;"><b><u>STRENGTHS</u></b></p> <ul style="list-style-type: none"> <li>- With its young and growing population, Turkey is promising for retail food consumption.</li> <li>- Turkey's rising GDP and per capita income is increasing consumption.</li> <li>- Improvements in distribution infrastructure and financing contribute to Turkey's retail growth.</li> </ul>	<p style="text-align: center;"><b><u>WEAKNESSES</u></b></p> <ul style="list-style-type: none"> <li>- Religious restrictions and high Special Consumption Tax rates reduce the availability and consumption of alcoholic beverages.</li> <li>- High import duties imposed on both agricultural and processed products.</li> <li>- High shelf fees in large chain stores raise market introduction costs for new products.</li> <li>- Business strategies hindered by a lack of data and transparency.</li> </ul>
<p style="text-align: center;"><b><u>OPPORTUNITIES</u></b></p> <ul style="list-style-type: none"> <li>- Dynamic young population is open to new brands and products.</li> <li>- Growth in tourism sector contributes to</li> </ul>	<p style="text-align: center;"><b><u>THREATS</u></b></p> <ul style="list-style-type: none"> <li>- Complex and extensive import procedures raise the cost of imported products.</li> </ul>

<p>growth in the food and beverage sector.</p> <p>- The retail market has not yet matured nor has been saturated, providing entrance opportunities for new products.</p>	<p>- Risk of being copied by a local producer.</p> <p>- Competition from European countries that have advantages of proximity and some preferential tariff rates.</p>
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The Istanbul Shopping Fest (ISF) began in 2011 and was organized for the third time between June 8-30, 2013. ISF involves many shopping malls and shops in prominent shopping districts remaining open until late hours. ISF benefits many sectors like retail, tourism, restaurants, transportation, and accommodation, resulting in a 10-percent increase in total sales compared to the same period in the previous years, bringing total revenues to 8.25 billion TL.

The 12<sup>th</sup> Phase of the European Union accession process, relating to the harmonization of food regulations, began on June 30, 2010. As part of this process, Turkish laws and regulations are being reformed, and European standards are being adopted. For instance, the first food reference laboratory accredited by the EU was established through an investment of 6.4 million Euros.

Also, a new Product Verification and Monitoring System was proposed in 2013, with an implementation date of January 1, 2014 which was recently delayed until August 31, 2014. The government of Turkey proposed the system to combat fraud, adulteration and imitation of foods, and to establish a tracking system. The system involves the use of 19-digit code applied to products in seven food categories: alcoholic beverages; food supplements; honey; energy drinks; black tea; vegetable oil; baby food and infant formula and supplements. It will be applied to both imported and domestic products in these categories. Consumers will be able to verify the products through SMS, web-site ([www.udts.com.tr](http://www.udts.com.tr)), by telephone, and by Code with use of smartphones. Turkish industry has resisted this system, claiming that it will increase the cost of food without providing any tangible benefits to consumers. The GOT announced in the final days of 2013 an 8-month delay in implementation that will require the new label on August 31, 2014.

## **II. Trends in the Market**

In 2013, discount markets dominated the food retail sector. As of December 2013, there are 16,840 stores in Turkey and 62 percent (10,571) of these are discount stores. This trend is expected to continue in 2014 as well. However, in the upcoming years supermarket chain growth strategies will change. As the retail market reaches saturation, chains will no longer expand by opening more stores, but will improve efficiency and reduce costs. We have already begun to observe this trend. The number of organized food retail stores increased 35 percent in 2010, but then declined to 25 percent in 2011, and in 2012 this figure decreased further to 14 percent. In 2013, this growth rate is expected to be around 9 percent.

In order to maintain growth, major retailers are adopting new concepts such as fast shopping, gourmet, and boutique stores.

For instance, Carrefour recently introduced a concept store that it only had in Paris, where brands have their own little stores within the 13 thousand square meter complex that also incorporates a lounge and library, a make-up atelier, and an art corner. The store also has a gourmet product variety that would be a competitor of Macro Center (of Migros group) and specialty cellars for wine, cheese, meat and delicatessen products.

Migros, on the other hand, evolved the Jet-Cashier approach, which it has been using in its larger markets since 2009, into a convenience store concept by creating M-Jet stores, which vary between 250-300 square meters. M-Jet stores include the best selling brands from the Migros stores and customers make their own payments without a cashier. Having lost its market leadership to BIM in 2009, Migros is redefining its store expansion strategy by turning Tansas stores into Migros and by opening M-Jet stores on side streets (36 stores have been opened in Istanbul, Ankara, Izmir and Bursa).

Products and services offered to consumers by major national & international chains include private label food items, membership cards, free delivery for internet purchases, and mobile phone applications. In addition to printing periodical booklets where promotional items are displayed and distributed in bundles to apartments, some chains also adopt other approaches to differentiate themselves from their competitors.

According to the studies conducted by AC Nielsen, Turkey is the world's most rapidly growing market in the private label sector, with a revenue reaching US \$2 billion. Private label products, which are priced 30 percent cheaper than well-known brands, account for 8 percent of the total sales in Turkey, and are most common in discount stores. In BIM, for instance, private labels constitute more than 50 percent of the total sales. This figure is around 35 percent in Diasa and 30 percent in A101 markets.

As discount markets, which vary between 200-400 m<sup>2</sup>, have gained popularity among organized retailers, the average size of stores has declined. These stores, such as BIM, provide around 700 varieties of products, whereas this figure is between 2000-2500 in local retailers. These hard-discount stores target the C segment, where the average basket price varies between US \$5-15 and a good percent of the total revenue comes from private label products. Industry sources estimate that the discount sector is approximately 40 percent saturated and that there is still 60 percent in potential growth capacity.

Another recent trend is the grouping of independent local chains together under the same roof to make joint purchases, providing consumers benefit from large-volume purchasing discounts that the multinational rivals are getting from the suppliers. The most significant example of this movement is the company Fayda Inc. (which means "benefit" in Turkish) that incorporates 72 local chains to make mass purchases and sell their own private label products. There is another similar attempt in Samsun (along the Black Sea coast) where 6 local chains have come together for a Cash & Carry concept.

In the Cash & Carry segment, Ulker, the largest Turkish confectionaries producer, is also trying a similar strategy with Bizim Wholesale Markets where they ask for a purchase commitment from their *bakkal* and other small business buyers, and then combine these with their own purchasing power to get even better prices from the suppliers. Currently there are 131 Bizim stores throughout Turkey.

### **III. Actors of the Organized Retail Sector**

#### **A. Supermarkets**

## 1. Local Supermarket Chains

Local supermarkets are increasing in number and in turnover volume as a result of the large scale switch from *bakkals* to local supermarkets. As of December 2013, these local supermarket chains raised their total number of stores to 3,900.

The table below lists the top 10 supermarket chains (national and local) that opened the most number of stores in the past year.

	Jan. 1, 2012	Jan. 1, 2013	Difference
<b>BİM</b> (National Discount)	3281	3662	381
<b>A 101</b> (National Discount)	1291	1687	396
<b>Şok</b> (National Discount)	1238	1222	-16
<b>DiaSa</b> (National Discount)	1108	1217	109
<b>Migros</b> (International)	529	622	93
<b>Hakmar Express</b> (İstanbul Discount)	228	252	24
<b>Tansaş</b> (National)	184	218	34
<b>Makro Market</b> (National)	154	171	17
<b>CarrefourSA Exp.</b> (International)	181	195	14
<b>Kiler</b> (National)	193	203	10

Source: [www.ortakalan.com.tr](http://www.ortakalan.com.tr)

The last column shows how rapid the discount stores are growing. As of December 2013, BIM has 3940 stores, A101 has 2254 stores, Sok has 1656 stores, and Diasa has 754 stores. After Ulker Group bought Sok in 2012, they bought Diasa in 2013 for 320 million TL, and are now converting Diasa stores to Sok.

In 2013, two new discount brand stores called UCZ and Ekomini also entered the market with an alternative style and grew tremendously to reach almost 2,000 stores in 1 year. These stores are smaller than a discount market, but larger than a *bakkal*, with about 100 square meters in size. They have 200 or 250 basic barcode products on their shelves and work with only one employee. These stores will accelerate the demise of the *bakkal* concept in Turkey.

## 2. Foreign Supermarket Chains

Migros of Switzerland entered the Turkish market in 1954 as the first foreign supermarket chain in cooperation with the Istanbul Municipality. In 1975, the majority of Migros's shares were transferred to the Koc Group. After selling their discount store chain, Sok, to Ulker in 2011, Migros is now trying to fill that void with its new concept stores called M-Jet and Mini Tansas. Albeit smaller, these stores are not discount stores but maintain a supermarket concept with nearly 3200 products. Having made 6.5 billion TL in revenues in 2012, Migros's target revenue for 2013 is to exceed 7 billion TL.

Metro Group of Germany has been active in Turkey since 1990 with Metro Cash & Carry and Real Hypermarkets. Metro is the first cash & carry store that opened in Turkey that targets professional commercial customers such as hotel, restaurant and kiosk operators, caterers and small food retailers, unlike the common supermarket retailers that target private households. Having invested over 1.714 billion Euros in Turkey so far, Metro Group's 2012 sales reached €1.9 billion from a total of 29 Metro Cash & Carry Stores, 12 Real Hypermarkets, 28 Media Markets, and 5

Saturn stores. The group also exports €600 million in products from Turkey annually, and employs 7,727 full time-staff.

The French chain Carrefour entered the Turkish market in 1993. Three years later, in 1996 Carrefour partnered with a leading conglomerate in Turkey, the Sabanci Group, by selling 40 percent and keeping 60 percent of its ownership. Together, the Carrefour–Sabanci merger became CarrefourSA. In 2013, Sabanci group purchased an additional 14 percent shares from Carrefour for 141 million TL and increased its share to 50.8 percent. In May 2013, Sabanci Group sold its DiaSa brand where it had partnership with a Spanish soft discount chain (60 percent Dia - 40 percent Sabanci) to Yildiz Holding for 320 million TL. Currently, CarrefourSA has 28 hypermarkets and 215 supermarkets under the name CarrefourSA Express.

Tesco, a UK company, acquired the local Turkish chain Kipa in November 2003 and they introduced the Kipa Express concept in 2006. With an investment of 224 million TL since, Tesco has opened 61 supermarkets and 135 Kipa Express stores, employing over 10,000 staff. In their Kipa Extra stores they sell non-food items like textiles and electronic products.

### **3. Gas Station Markets and Convenience Stores**

According to Turkish Petroleum Cooperative (TPAO) data, there are nearly 13,000 gas stations in Turkey - most of which have a market. These markets mostly provide convenience products that one could need on the road and their share in the total retail sector is negligible.

Below is a list of the most popular gas station markets and their stores in Turkey.

1. There are 604 markets in BP's gas stations, and some of these have fast food chains such as Burger King, McDonald's and Pizza Hut, along with a grocery store.
2. Shell Co. has been operating in Turkey for 90 years. They merged with Turcas (Turkpetrol) in 2006, and now have 1000 gas stations which all have a market in them.
3. Petrol Ofisi, purchased by the Austrian OMV in 2012, has 2200 stations, which all have markets - some of which also have Würth, DiaSA, Aslı Börek and Simit Sarayı restaurants. PO also makes special agreements with companies like Coca-Cola, Nestle, Pizza Hut and Craft to sell certain products cheaper than the marketplace under their "Product of the month" campaign, or give coupons to use in return of a certain amount of gas.
4. Opet has a total of 1345 stations including its Sunpet brand, where they all have markets, including 7-Eleven, which Opet is the licensee of in Turkey since 2001.
5. Russian Lukoil purchased Akpet in 2008 that had 700 stations and started converting them to Lukoil, giving them a corporate identity. These stations also have markets and over 300 restaurants.

These stores have a relatively limited sales volume, cannot sell alcohol, and they make their procurements from wholesalers, hypermarkets, importers, agents and/or distributors.

### **IV. Actors in Unorganized (Traditional) Markets**

*Bakkals*, open-air bazaars and small convenience stores that sell only alcoholic & non-alcoholic beverages, cigarettes, packaged confectionaries and unpackaged dried nuts are the most common forms of traditional outlets in Turkey. *Bakkals* are small mom-and-pop outlets which are usually

around 50m<sup>2</sup>, located on the side streets of most neighborhoods all over the country. The majority of daily household and personal care consumption products can be found in *bakkals*, yet with fewer brand alternatives. The number of *bakkals* in Turkey decreased from 164,366 in 1996 to 113,295 in 2008, and is now estimated to be less than 100,000 as of 2013. This trend is a result of the shift toward organized retail in the Turkish market. *Bakkals* are more common in Anatolia, rather than in big cities like Istanbul and Ankara where they are being replaced with discount stores.

Each town in Turkey has an open-air bazaar at least one day of the week. Open-air bazaars mainly sell fresh vegetables and fruits. *Bakkals*, open-air bazaars and small convenience stores are still preferred by Turkish consumers because of their convenient locations and because open-air bazaars particularly offer not only fresh fruits and vegetables, but also a wide variety of products including clothing, kitchenware, over-the-counter products and personal care products at low prices.

*Bakkals* and convenience stores make their procurements from various channels including distributors, agents, wholesalers, and cash & carry hypermarkets. Open-air bazaars obtain produce mostly from food wholesale markets in big cities, but in small places farmers come and sell their own fruits and vegetables as well.

## **B. ROAD MAP FOR MARKET ENTRY**

### **I. Market Structure**

The Turkish retail market is highly competitive and rapidly changing with major acquisitions and consolidations. Even though the exact market share of each chain is not crystal clear, the table below gives an idea of the market share of each type of store in the organized retail sector.

Imported packaged food items are sold mostly in large supermarkets that target A&B customer profiles. In traditional markets, local supermarkets and discount stores that target the C profile consumer, imported items are rarely found.

In terms of imported products, in *bakkals* and open-air bazaars, only bulk commodity products such as pulses and rice can be found since these traditional retailers sell basic food items rather than processed goods.

The table below provides the size of major players in the market.

<b>Major Supermarket Chains in Turkey</b>						
<b>Company Name</b>	<b>Type of Outlet</b>	<b>Ownership</b>	<b>Turn-over (2012)</b>	<b>Number of Outlets (2013)</b>	<b>Location</b>	<b>Purchasing Agent</b>
<b>BIM A.S.</b>	Hard Discount stores	Turkish	TL 9.9 billion	3,940	Nationwide	Importers

<b>Migros A.S.</b>	- Hyper (5M & 3M Migros) - Super (2M & M Migros, M-Jet, Tansaş) - E-trade (www.kangurum.com.tr) - Niche (Macrocenter)	Turkish	TL 6.5 billion	962	Nationwide & International	Direct & Importers
<b>Carrefour-SA</b>	Hyper (CarrefourSA) Super (CarrefourSA Express)	French 46.2% Turkish 50.8%	TL 2.5 billion	28 Carrefour 215 Car.Exp.	Nationwide & International	Direct, Importers
<b>Tesco-Kipa</b>	Hyper, super and Express stores	U.K. 93% Turkish 7%	TL 2 billion	189	Nationwide	Importers
<b>Metro &amp; Real</b>	Hypermarkets	German	Euro 1.9 billion (Country total)	29 Metro 12 Real	Nationwide	Direct, Importers
<b>Yildiz Holding</b>	- Soft Discount (Diasa, Şok, Onurex) - Wholesale/Cash & Carry (Bizim)	Turkish	US\$642 million	2,582	Nationwide & International	Importers/Wholesalers
<b>A101</b>	Hard Discount	Turkish	TL 2.1 billion	2,254	Nationwide	Importers/Wholesalers
Source: Websites of the retailers, press releases * Foreign Exchange Rate at the time of this report: 1US\$ = 2 TL						

## II. Mergers and Acquisitions

Turkish supermarket chains have been undergoing a continuous trend of mergers and acquisitions since 2005. The acquisitions started with CarrefourSA acquiring Gima & Endi from the Ankara Municipality on May 3, 2005 for US \$135 million.

Not long after that, the second important merger in the sector was in November 2005 when the number one chain Migros purchased Tansaş, the number four chain at the time. Migros acquired 71 percent of Tansaş shares for US \$387 million and kept the Tansaş brand name on the stores.

Then in 2008, Migros was sold by Koc Group to the British BC Partners Private Equity Fund for US \$3.2 billion. Although this was the largest acquisition in the sector, it was not noticeable to consumers because BC Partners kept the same management personnel and made no changes to the brand or the concept.

In 2011, Migros sold its discount store line "Şok" (established in 1995 with 1,230 stores and TL 1.2 billion in turnover) to Yildiz Holding for TL 600 million. This acquisition made Yildiz Holding the largest competitor of BIM which has over 3,000 stores in the discount segment.

Yildiz Holding acquired the Belgian chocolate producer Godiva in December 2007, and currently has 53 production facilities in and outside of Turkey. Nearly synonymous with their biscuit brand, Ulker, the group increased its sales revenues 16 percent in the first 6 months of 2013 and reached 1.3 billion TL compared to 1.1 billion TL in the same period of 2012. In the last two years, they also bought Diasa (1,217 stores for 320 million TL) and Onurex (119 stores for 33 million TL) soft discount chains, reaching a total store count of 2,582 as of July 2013. They also introduced a Turkish version of cash & carry stores with Bizim supermarket chains. The food retail sector was not used to a major supplier (having 10 percent share of the products displayed on their shelves) becoming their competitor. Meanwhile, the fact that a local retail chain was purchased by a large local producer is a sign that local investors can also utilize economies of scale as well as global companies.

There have been mergers and acquisitions among smaller food chains as well. Industry sources explain that companies are trying to increase their economies of scale and market penetration by acquiring smaller retailers rather than opening new stores.

After Carrefour sold Dia and Migros sold Sok to Yildiz Holding, there are no foreign investors left in the discount segment (apart from a minor 3.5 percent share of BIM). The major reason behind this is the decrease in profit margins as a result of heavy competition from the local players.

Some local chains were listed on the Istanbul Stock Exchange in 2010 and 2011. These chains were Kiler, Bizim and Uyum and their initial public offerings were 15, 35, and 30 percent of their shares, respectively.

### **III. Distribution Channels**

Due to the global financial crisis, efforts to minimize costs have led to a trend to eliminate as many intermediaries as possible between the producer and the customer. Although distribution options vary depending on the product involved, the typical product goes through the following stages to reach the consumer: manufacturer/importer - wholesaler/distributor - retail unit. For imported products, an importer or agent is typically also the wholesaler and/or distributor. A significant number of distributors offer nationwide service, and national distributors distribute the majority of food and other consumer goods.

Most hypermarkets import only a fraction of their total imported products directly; they generally purchase through importers and wholesalers. Imported goods constitute around four percent of the total turnover of food products in the retail sector.

Nearly all major suppliers today have their own chain store departments which are then intra-specialized as national and local chains. Supermarkets no longer purchase from agents or distributors, but directly from the suppliers themselves.

Economies of scale can be observed in every aspect of the retail sector. These trends have led to a consolidation of distribution channels as well. Major distributors are currently preparing to establish regional hubs where products from various suppliers will be gathered and distributed to the markets in that region.

#### **IV. Draft Law on Supermarket Regulation**

The increase of organized retail in the total food retail sector is significant in terms of diminishing the unregistered economy. On the other hand, the substantial increase in the size of organized retailers has led the industry to ask for a regulation to protect small merchants and craftsmen from the giants who belong predominantly to foreign and local large capital groups. There have been a couple of attempts by the government to slow down the closure of *bakkals* by limiting new hypermarkets in the downtown areas, but no attempts have been successful.

A draft law has been prepared by the Ministry of Industry and Commerce (MIC) to monitor and regulate the establishment and commercial activities of large supermarkets, defined as stores constituting an area over 400 m<sup>2</sup>. The draft law defines terms such as shopping mall, supermarket, chain market, private label, franchise and branch, and simplifies retail store opening procedures.

It also proposes for the allocation of a certain amount of space in shopping malls for small businesses and craftsmen. Another important feature of the draft law is that it brings the maximum payment term of supermarkets to suppliers down to 60 days instead of 90 days. In recent years, supermarkets' bargaining power against suppliers have increased immensely as a result of consolidations and increased sales. Supermarkets tend to take advantage of this situation by deferring payments and imposing high shelf fees to the suppliers whenever possible.

The draft law proposes standards such as minimum space for parking area as well as the limitation of working hours for the supermarkets (like closing them earlier in the evenings and during national holidays). According to the draft, total turnover of private label products shall not exceed 40 percent of the total sales. Discount sales and promotion campaigns will also be regulated in terms of their period and duration.

#### **V. US Retail Food Product Exports**

Since 2001, consumer-oriented agricultural imports to Turkey have increased at a modest rate. While imports account for only about 4 percent of retail food sales, an increasing variety of products are finding their way onto the shelves.

Other than commodities like rice and walnuts, tropical fruits such as bananas, pineapples, mangos, and papayas are also imported to Turkey. Imported bananas and kiwis are also available at traditional markets, whereas mangos and papayas are still luxury items, and are only available at large supermarkets and specialty retail outlets. Turkey's imports of niche items like golden berries and cranberries spike once in a while following a popular event, but such trends usually do not last for more than a year.

The major U.S. food exports to Turkey are rice, oilseeds and products, soy, tree nuts, cereals, and pulses followed by wine, cheese, snack foods, chocolate, confectionary goods and sauces.

Advantages and challenges awaiting U.S. exporters in the Turkish market are summarized in the

table below:

<b>Advantages</b>	<b>Challenges</b>
A significant increase in purchasing power and improvements in the macro economy combined with the good reputation of U.S. food products lead to a constant increase in U.S. agricultural sales to Turkey.	Turkey's Customs Union and regulatory harmonization with the EU offers an advantage to some member country products. EU and neighboring countries also enjoy lower freight costs and shipping time advantages.
Some U.S. products are better priced than local products, such as pulses, and in general are of better quality than competition.	The high value of the dollar against the Turkish Lira and the volatile exchange rate have made some U.S. products more expensive.
Increased preference for organized retail stores leads consumers to discover new products, and to become more aware of imported brands.	High import duties are imposed on agricultural products (up to 135 percent on bulk agricultural commodities and up to 170 percent on processed food products).
Young consumers are eager to buy and try imported products regardless of their price, and consumers have a positive perception of U.S. products and are willing to pay more for quality.	The local food processing sector is well developed and high quality goods are sold at competitive prices. A rich diversity in agricultural production provides ingredients for most sub-sectors.
There is growing demand for regional flavors such as Tex-Mex, and specialized products such as diabetic and diet foods, ready-to-eat foods and frozen food products, which are imported, or produced locally.	High shelf fees charged by the large chains lead to high costs for introducing new products into the market.
International retailers who market a wide range of imported products in the sector have a strong influence on purchasing patterns.	For confectionaries, there is a risk of products being copied by a local producer and being introduced into the market under a different name.

In September 2012, the Food Retailers Association was formed with a board of directors composed of representatives of the top 10 retail chains (such as Bim, CarrefourSA, Migros, Tesco Kipa, Metro, Kiler, Uyum, etc.).

Organized retailers are able to strengthen their position against the suppliers as a result of consolidation. Large supermarket chains ask for high "shelf fees" to sell a product in their stores. In other words, they ask the supplier to pay them a certain amount of money to put the product in their stores. This price is negotiable and varies according to the product and according to the supplier. Products with a higher profit margin are charged higher shelf prices which may go up to US \$30,000. On the other hand, large suppliers that provide well-known brands and highly demanded products pay less or no shelf price.

It is therefore very useful to get in contact with importers, especially those with nationwide distribution services, when trying to enter the Turkish retail market. Their personal relations with the retailers could create price advantages. Moreover, in order to make sure that the products are placed visibly on the shelves, sales representatives of companies pay regular visits to supermarkets, and they try to establish good relations with related floor workers. A local partner is therefore crucial in order to organize regular visits to the stores like local competitors do and to sustain and/or improve product visibility.

A list of major Turkish food importers can be obtained from TUGIDER (Association of Food Importers) or from FAS Ankara. TUGIDER has 155 members and represents a majority of Turkish

food importers. This organization can be contacted at (+90) (212) 347-2560, via fax (+90) (212) 347-2570, or at

U.S. exporters are highly recommended to participate in food shows in Turkey. The major food shows to be organized in Turkey in 2014 are listed below with their specific dates and venues.

<b>Date</b>	<b>2014 Major Food Trade Shows in Turkey</b>	<b>Location</b>
19-22 Feb	<b>Anfas Food Product</b> : 19 <sup>th</sup> International Food Trade Exhibition <a href="http://www.anfasfoodproduct.com/index.php/en">http://www.anfasfoodproduct.com/index.php/en</a>	Antalya
13-16 Feb	<b>Food Show</b> : 7 <sup>th</sup> Food and Beverage Trade Show <a href="http://www.foodistfuari.com/">http://www.foodistfuari.com/</a>	Istanbul Tuyap
10-13 Apr	<b>Ekoloji Izmir</b> : Organic Foods Tradeshow, co-held with Oliv-Tech	Izmir
24-26 Apr	<b>Fi Istanbul</b> : Food Ingredients <a href="http://www.foodingredientsglobal.com/en/istanbul/home">http://www.foodingredientsglobal.com/en/istanbul/home</a>	Istanbul Lutfu K.
18-21 Sep	<b>9<sup>th</sup> Istanbul Food - Tech</b> : Food and Beverage Technologies, Food Safety, Additives and Ingredients, Logistics	Istanbul
09-12 Oct	<b>Worldfood</b> : 22 <sup>nd</sup> International Food & Beverage, Food Ingredients and Food Processing Exhibition	Istanbul IFM

While it is recommended to go through importers for high value items, commodities can be marketed with the help of certain institutions like the USA Rice Federation, US Dry Bean Council, etc.

### **C. COMPETITION**

The major competition facing U.S. exporters is from the European Union. EU countries enjoy some advantages from the Customs Union agreement, such as lower import duties, or lower freight charges and shorter delivery times. Investments of major European hypermarket chains such as Carrefour of France, Metro and Real of Germany, and Tesco of UK have also played a role in the dominance of European products in Turkish imports. The majority of imported items from Europe are dairy products, snack foods, cheese, processed fruits and vegetables.

Moreover, Turkey's processed food sector is modernized and developed, and is capable of manufacturing high quality items in large quantities and in various sub-sectors. Turkish food producers are flexible and innovative and tend to produce products similar to imported ones when they see a good opportunity to increase sales, which creates a strong competition for imported food items.

According to U.S. Census Trade Data, Turkey imported US \$347 million of consumer oriented agricultural products from the United States in 2012. Among the long list composing this figure, some of the most significant products are tree nuts worth US \$230 million, followed by prepared food with US \$23 million, processed vegetables with US \$9 million, wine & beer with US \$4 million, and snack foods (excluding nuts) with US \$1.5 million. In the first 10 months of 2013 (Jan-Oct) Turkey's imports reached US \$296 million which shows a 21-percent increase compared to the same period in 2012.

## **D. BEST PRODUCT PROSPECTS**

### **I. Products Now Present in the Market**

Best product prospects for the imported food market are internationally well-known branded products such as sauces, soft drinks & alcoholic beverages, cocoa and instant coffee, chocolate and confectionary goods, cookies and crackers, breakfast cereals and cheese varieties. Major imported items are:

**Cocoa and chocolate:** Turkey is dependent on imports in this category, since there is no local production of cocoa. Meanwhile the Turkish chocolate sector is growing approximately 10 percent annually for the past ten years compared to the 5 percent growth in the global chocolate sector, and reached \$2.5 billion export volume in 2012. Chocolate consumption is in direct proportion to income level, and forty percent of total chocolate consumption is realized in the Marmara Region. The market is currently dominated by local production, but consumers are open to new tastes and brands.

**Coffee:** Despite the dominance of Nestle and Jacobs brands in the instant and filter coffee markets (respectively), a niche market for flavored gourmet coffee in the upscale cafes and restaurants emerged after the arrival of Starbucks and Gloria Jean's. The German coffee shop Tchibo also entered the Turkish market in December 2006 and opened 52 stores in 11 cities since. High quality coffee varieties can find a market in the high-end supermarkets such as Macro-Centers or other international supermarkets.

**Dry nuts and confectionary items:** Turkish people consume walnuts, almonds and sunflower seeds as confectionary items, and the U.S. is the largest supplier of walnuts to Turkey. The United States exported more than US\$60 million of walnuts and nearly \$150 of almonds to Turkey in 2012. Turkey imported US \$230.3 million in tree nuts in 2012 from the United States. There is always a market for U.S. nuts in Turkey, provided that they are price competitive.

**Wine:** Turkey is the world's 5th largest grape producer with 3.7 million tons, 4th in terms of the area planted with 567 thousand hectares, and 2nd in the production of raisin with 285 thousand tons. However, only 2 percent of this grape production goes into wine making. Despite annual wine consumption of around 1 liter per person, imported wine varieties are increasing in the market and are sought by consumers.

**Beer:** There is a shift in the choice of beer Turkish consumers are making after being limited only to a few varieties of lager for decades. The new malt varieties introduced in recent years have shown an incredible increase in market shares, and as more brands come into the market consumers are opening to new tastes and products. Beer consumption in Turkey is increasing due to the rising population of young consumers and the number of foreign tourists. Beer was the most consumed alcoholic beverage in 2012 with a 7.9 percent increase over 2011, and reached almost 1 billion liters.

**Flour and flour-based products:** Crackers and cookies, diet breads, crisp breads and special kinds of pasta are present in the Turkish market. These products tend to appeal to higher income consumers, and are found at upper-middle income retail outlets (specialty shops, supermarket and hypermarkets).

**Breakfast Cereals:** Corn flakes, instant oats, muesli, bran fiber flakes with raisins, mixed fruit and chocolate cereals are increasing in variety as they are welcomed by Turkish consumers as breakfast items. Although they are relatively new in the market, cereals can even be found at discount stores.

**Sauces and syrups:** Imports of these products continue to grow as consumer tastes diversify. These products are found mostly in upper-middle income retail outlets.

**Functional foods:** Consumption of functional food products has been growing rapidly in line with the consumer demand for healthy products. Currently diet products, dairy, margarines, and herbal teas are the major types of functional foods present in Turkey. Functional food additives, toddler foods and in general products 'enriched' in any way promise a high growth potential.

**Frozen food:** The retail frozen food sector grew 245 percent between 2006 and 2012, and became a 470 million TL market with the introduction of new varieties such as seafood items and processed products. Just 5 years ago frozen food was used in 33 percent of homes, whereas today it is used in 49 percent of all the homes in Turkey. Total consumption reached 73 million kilograms, and the total market volume including non-retail consumption has increased from 700 million TL in 2010 to 1.2 billion TL in 2013. The key to this growth has been a change in consumers perceptions. Health-conscious consumers are getting rid of their prejudices and becoming more knowledgeable about the food safety aspects of frozen goods, with the help of marketing activities that emphasize the notion that it is healthier to buy frozen than freezing at home.

## **II. Products with Strong Sales Potential and Not Present Substantially in the Market**

**Organic high value items:** In line with the healthy trend, organic products have been gaining popularity in Turkey for the past few years. As the prices of organic products come down to more reasonable levels every year, the demand also increases in direct relation. However, organic products sold currently are limited to fresh produce and herbs. There are only a few processed goods like organic yogurt available. Post forecasts that organic processed products introduced to the market would have substantial sales potential.

**Ready-to-eat, ready-to-cook meals & canned soup:** As more women join the work force and life styles change, processed foods are increasing their popularity among urbanites who don't have the time to cook for hours after work. The ready-to-eat and ready-to-cook meals market has a high potential in this respect. There are only a few local companies marketing such products. Therefore, exporters - especially specialized in Far Eastern, French, and Tex-Mex cuisines - have a good chance for successful market entry.

**Gourmet/Foreign Ingredients:** As Turkish consumers' tastes become more sophisticated, there is growing interest in restaurants featuring novel foods such as "Tex-Mex", "Chinese", "Thai" and "Japanese." This is bound to spread into retail sales as well. Recently there is a visible increase in sauce varieties of different cuisines. Ingredients used in making these types of ethnic dishes promise a growing sales potential, not only by the end users but also by restaurants who serve these cuisines.

**Healthy Snacks:** Health bars and other healthy snacks are not substantially present in the market but consumers are aware of the products. This is a good sales opportunity for suppliers who would like to benefit from the rising 'healthy consumption' trend before the void is filled.

It is worthwhile to state that the Turkish consumer is generally reluctant to try new tastes or

products if they cannot relate to it somehow. Taste preferences and food choices of the Turkish consumer is quite different from the U.S. consumer. Therefore, it is always beneficial to conduct a market analysis before trying to introduce a new product in the Turkish market to determine if the consumers like the taste of it.

### **III. Products Not Present in the Market**

Regulations in Turkey may be subject to drastic changes over short periods of time, so every exporter should be aware of the latest regulations before making any plans. The biggest regulatory developments of the past few years have been on the ban of biotech products and the allowance for imported meat. For detailed information on these subjects, please refer to the related FAS reports on: <http://gain.fas.usda.gov/Lists/Advanced%20Search/AllItems.aspx>

It is not recommended to export anything that has a shelf-life of less than 6 months due to the shipping time from the U.S. and the extensive import procedures that may take up to several weeks. Also products like expensive wine varieties turn out to be even more costly when a few bottles have to be given up at customs for import testing procedures.

It is always useful to take into consideration that the taste preferences of Turkish consumers can be quite different from U.S. consumers. Although globalization in every aspect has made consumers more open to try and accept new tastes, some products may need to be adapted according to the local taste.

Examples of failure of some products in the Turkish market in the past were mostly due to inadequate marketing and brand positioning strategies when the product lines were introduced. Adopting products popular in the west is a large part of the modern Turkish lifestyle, and internationally known brand names are useful in this respect. Exporters should be particularly sensitive to brand positioning and be ready to invest in necessary research and marketing activities for a successful introduction.

### **E. POST CONTACT INFORMATION**

For more information on high value food items and other agricultural sector reports for Turkey or other countries around the world, please refer to the FAS home page at the following URL address: <http://www.fas.usda.gov>.

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